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How Dealer Runs up High-Octane Sales
What's Next for Phillips 'R&M'?
Costs, Confusion Slow POS Revolution

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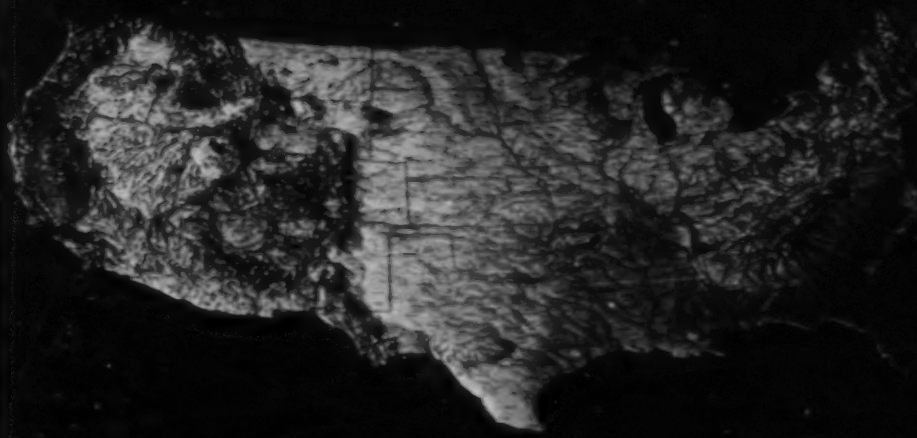

Congress Probes
The Industry's
Next Big Problem

NATIONAL PETROLEUM NEWS

FEBRUARY 1985 VOL. 77 NO. 2

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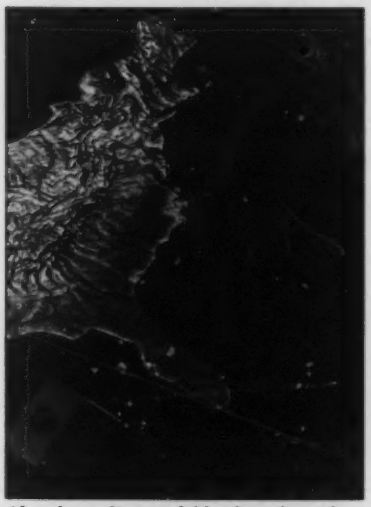
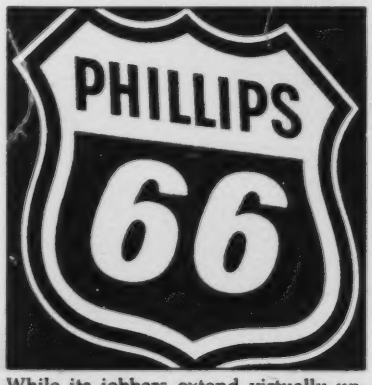


Already reeling and bleeding from four years of brawling over a shrunken market, U.S. refiners and marketers may face their toughest foe yet over the next few months: oil product imports. **Page 36**

Cover photo by John Apolinski, Chicago

The automation revolution in oil marketing is continuing, but without the fervor it initially had. Its leaders say confusion must be eliminated before the trend can regain momentum. **Page 40**



While its jobbers extend virtually unwavering support, Phillips must make some tough decisions—such as whether to maintain refining and marketing—as a result of winning its battle against T. Boone Pickens. **Page 29**

Mideast OPEC nations. According to various sources, since decontrol about 3-million b/d of new refinery capacity has been built or currently is nearing completion in various OPEC countries.

The International Assn. of Independent Tanker Owners has estimated that Middle Eastern refinery capacity will rise to 5-million b/d by 1990.

When the refinery buildup began in the Mideast, reports indicated that their primary purpose would be to supply fuel oil to European markets. But now, it seems more and more of the Mideast product output may be targeted for the U.S.

There have been reports that a new 500,000 b/d Saudi Arabia refinery has targeted from 15% to 20% of its production for U.S. shores. It is claimed that some foreign oil producers sometimes require U.S. companies to purchase foreign-produced products as part of their crude oil purchase agreements.

In addition to the Mideast refineries, API reports that Mexico is a large source of gasoline imports into the U.S., followed by Canada, Venezuela and the United Kingdom. In addition, there is considerable traffic between West Coast marketers and China.

Price Is the Key

Aside from some suspected "innovations" in classifying gasoline imports to get the best tax break, U.S. opponents to the growing tide of imports say they are coming in at prices U.S. refiners simply can't match.

AIRA's Bragg, who believes foreign gasoline already may supply 10% of the U.S. market, has said the product is coming in at a price "that by the barrel

Why Imports Compound U.S. Refiner Woes

Already ravaged by a tumble in the once-expected demand for oil products, domestic refiners may have to continue shutting down or shifting down operating capacity because product imports are robbing U.S. refiners of a part of their market.

Ironically, the rising tide of product imports comes at a time when some analysts believed the shakeout in refining capacity would begin to settle down and, perhaps as early as this year, some equalization between domestic refining capacity and current demand conditions could be reached. But the flood of imports, some warn, has the ability to drown out such an optimistic scenario.

If the gasoline tide continues to grow on the East and West Coasts, more of the marginal refiners can be expected to give up, and some of the majors may be inclined to mothball additional capacity. With 3-million b/d of refining capacity soon coming on-stream in the Mideast, the threat is quite real. These refineries, with cheap crude at their disposal, can duplicate on the East Coast the heavy flow of cheap Chinese gasoline which began on the West Coast more than two years ago.

Gasoline imports in November were close to 350,000 b/d. The American Petroleum Institute noted last October that gasoline imports were up roughly 50,000 b/d or 20% over the first 10 months of 1983. API indicated there is concern that the figures actually are understated by 30,000 to 50,000 b/d, which, if true, would mean that gasoline imports were at the 400,000 b/d level at the end of 1984.

That's nearly 10% of U.S. consumption—a dangerous level when many domestic refiners are walking very tight profitability lines.

Imports have borne much of the blame for substantial cutbacks in refinery operations in recent months. For example, Texaco last fall hacked its 242,000 b/d Port Arthur, Texas, throughput and employee rolls about in half, and its chairman cited import product as part of the reason.

Other refineries no doubt have been affected, at least in part, by the impact of imports. Rising imports since roughly the time of oil decontrol four years ago have fueled refinery failures and fallout already underway. Charter Oil, for instance, threw in the sponge and put its Texas refinery up for sale, and walked away from its partnership in the Bahamas refinery, once the world's largest. Southland Corp., the nation's biggest independent retailer, laid off half the people at its Citgo facility in Lake Charles, La., and cut back on production. Several major U.S. refineries in the nearby Caribbean also have announced shutdowns or severe cutbacks recently.

But it is the small refinery which has been most under siege since crude oil distillation capacity began to slide following its peak in 1981. More than 90% of the shutdowns in 1982 alone affected units with capacities of less than 50,000 b/d, according to a government survey. About 40% were less than 10,000 b/d. Of course, a contributing factor to the closures of the small facilities was the loss of the government's bias tilt, which had enabled many of them to prosper, despite their acknowledged inefficiencies and inadequacies. The "small refiner bias" lasted from 1973 to 1980.

The troubling refinery situation has prompted the U.S. government to ask the National Petroleum Council to survey and evaluate the industry's ability to meet future needs, with special attention to the small regional facilities. Just now getting underway, the survey should see results by year's end.

The role of imports in the industry's current predicament is the subject of an API study. Other refiner groups have begun responding to the imports dilemma in like fashion. [See main story.]

The economics of refining for many have become negative or very thin at best, with one source noting most refiners barely make maintenance and replacement costs these days. For others, the flow of product imports into their U.S. markets may be just enough to push their plants over the edge.

U.S. Refineries Since Decontrol . . .

Year **	Number Refineries*	Number Shut Down	Crude Oil Distill. Cap. (000 b/d)	Change vs. Year Earlier (000 b/d)	Refinery Utilization
1980	324	—	18,620	+0.632	75.6%
1981	301	23	17,889	−0.731	68.5
1982	258	43	16,859	−1.030	69.8
1983	247	11	16,137	−0.722	71.6
1984 ***	240	7	16,262	+0.125	76.1

*Operable or idled, i.e., can be reactivated in 90 days or less.
**As of December 31.
***Estimated, with utilization rate based on first 10 months of 1984.
Source: Department of Energy; American Petroleum Institute.

Crude Distillation (As of Jan. 1 each year)	1984	1983	1982	1981	1980
Less than 10,000 b/d	63	67	82	91	102
10,001-30,000 b/d	55	59	80	93	83
30,001-50,000 b/d	41	40	44	42	39
50,001-100,000 b/d	41	44	43	44	44
100,000-175,000 b/d	26	26	30	27	25
Over 175,000 b/d	21	22	22	27	28
Total	247	258	301	324	319

Source: Department of Energy